

## Overview

Scholarship tax credit programs are a growing school choice option some states are exploring. As of January 2011, nine scholarship tax credit programs exist in seven states. These programs allow individuals and corporations to allocate a portion of their owed state taxes to private nonprofit school tuition organizations that issue scholarships to K-12 students. The scholarship allows a student to choose among a list of private schools, and sometimes public schools outside of the district, approved by the school tuition organization. The scholarship is used to pay tuition, fees, and other related expenses. As a result, the state does not have to appropriate per-pupil education funding for those students that receive scholarships.

Tax credit programs provide an alternative to school voucher programs. Supporters of scholarship tax credits say they save the state money because annual tuition at a private school is typically less than the per-pupil cost at public schools. This is shown through a nonpartisan analysis of the Florida Tax Credit Scholarship Program. It reported for every \$1 spent on the tax credit program, Florida taxpayers saved an estimated \$1.49. However, the report notes that the state's savings is dependent on a proper balance between the cap on the tax credit and the number of qualified students participating in the program. In other words, if the cap is too high, and not enough students participate, the lost tax revenue will be higher than the savings in education funding.

Opponents of scholarship tax credit programs argue that private schools are not as accountable to state and local education achievement standards as public schools. Some states have accounted for this by requiring participating private schools to administer and publish results from a nationally recognized standardized test. Many critics also oppose allowing scholarship recipients to attend private religious schools, claiming it is a violation of the separation between church and state. Some school tuition organizations allow scholarship recipients to attend only specified religious schools. Lastly, the National Education Association points out that moving students from public to private schools harms school districts because they cannot reduce their fixed facilities and transportation costs in proportion to the number of students who leave.

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## What States Have Done

**Arizona** – Arizona allows both individuals (A.R.S. 43-1089) and corporations (A.R.S. 43-1183) to claim a tax credit on income for donations made to "school tuition organizations" (STOs). They are two separate programs with varying requirements. The value of the credit is 100 percent of the donation made up to a maximum of \$500 for individuals and \$1,000 for couples filing jointly. There is no maximum credit for corporations, meaning if they donate an amount equal to their entire corporate income tax liability they will not owe any income tax. There is, however, a cap on the total aggregate credits offered. In FY 2010, the state offered a maximum

of \$17.28 million in tax credits given on a first- come, first-served basis to corporations. That cap increases by 20 percent each year.

Scholarship funds from individual donations can go to any student of the STOs choosing including those already attending private school. Scholarship funds received from corporate donations must go to low-income students who are either starting kindergarten or attended a public school the previous year. Arizona's scholarships can only be used for private school expenses. In other words, students who receive scholarships must attend a private school approved by the STO. However, private schools participating in the corporate scholarship program must annually administer a qualified standardized test, and make the results available to the public. There is no testing requirement for schools participating in the individual scholarship program.

Arizona also offers a similar corporate tax credit for special needs and foster children (A.R.S. 43-1184) that replaced a previous voucher program after it was ruled unconstitutional by the Arizona Supreme Court in 2009.

**Florida** – Florida allows corporations to apply for a tax credit for donations to an "eligible nonprofit scholarship-funding organization" (F.S. 220.1875). The value of the credit is 100 percent of the donation made. The credit can be applied to multiple forms of taxation including corporate income tax, sales tax, some excise taxes, insurance premium tax, and severance tax. Each has its own cap on the value of the credit, however, the income tax credit is awarded the most. A corporation can apply for a credit worth up to 75 percent of its total income tax liability. As a whole, the state awards a maximum of \$140 million (FY 2011) in scholarship tax credits. However, Florida's statewide limit is flexible, meaning if the amount of corporate donations made exceeds 90 percent of the tax credit limit (\$140 million) it automatically increases by 25 percent.

Scholarships must be awarded to students who qualify for the free or reduced-price lunch program and are either entering kindergarten or first grade, or attended a public school the previous school year. Eligible nonprofit scholarship-funding organizations can spend only 3 percent of collected donations on administrative expenses. Additionally, qualified private schools must administer or make arrangements to allow scholarship recipients between grades 3 and 10 to take an approved standardized test. Scholarships can also be awarded to low-income students that attend a public school outside of their own district. This scholarship is intended to cover travel expenses and any other related educational expenses (F.S. 1002.395).

**Georgia** – Georgia allows individuals and corporations to claim a tax credit for donations made to "student scholarship organizations" valued at 100 percent of the donation made. Corporations are limited to a credit worth 75 percent of the its total income tax liability. Individuals are limited to a credit worth up to \$1,000 for an individual and \$2,500 for a married couple. The state is allowed to award a total of \$50 million in credits each year (O.C.G.A. § 48-7-29.16).

All students enrolled in a Georgia public school or entering kindergarten are eligible to receive a scholarship to a qualified private school. Student scholarship organizations must spend at least 90 percent of their revenue in the form of scholarships. There is no requirement that students receiving scholarships take a standardized test (O.C.G.A. § 20-2A).

**Indiana** – Indiana is the most recent state to offer individuals and corporations a tax credit for donations to "scholarship granting organizations." Taxpayers receive a credit worth 50 percent of the donation made with no maximum credit. However, the state caps the statewide total credits awarded at \$2.5 million (I.C. 6-3.1-30.5).

Eligible students must have a household income at 200 percent of the required level for the free or reduced-price lunch program, and either be starting kindergarten or have been previously enrolled in a public school. Scholarship granting organizations must spend at least 90 percent of their total donations on student scholarships. Participating private schools must administer standardized tests to all students in the school (I.C. 20-51).

**Iowa** – Iowa offers individuals a tax credit for donations made to "school tuition organizations." The credit is equal to 65 percent of an individual's total contribution. While there is no limit on the size of a credit an individual can claim, there is a statewide tax credit cap of \$7.5 million.

To receive a scholarship, a student's family income must be no more than 300 percent of the federal poverty guideline as defined by the U.S. Department of Health and Human Services. Additionally, students already enrolled in private school are also eligible for scholarships. Qualified schools must be private and receive accreditation by the Iowa Department of Education. This accreditation includes assessing student achievement through standardized testing. School tuition organizations must allocate 90 percent of their annual revenue in the form of scholarships (I.C. 422.11S).

**Pennsylvania** – Pennsylvania allows businesses to claim a tax credit for contributions made to "scholarship organizations." The credit is equal to 75 percent of a one-year contribution and 90 percent of a two-year contribution made by a business. Each contributing business can receive a maximum credit of \$300,000 per year. Statewide, the credits awarded cannot exceed \$44.7 million. Businesses can also receive a separate credit for contributions to pre-kindergarten scholarship organizations. This credit equals 100 percent of the contribution up to \$10,000 and 90 percent of any additional contribution up to \$150,000. The total value of credits awarded statewide is capped at \$8 million.

Students with family incomes of \$60,000 or less (\$12,000 allowance for each additional dependent) are eligible to receive a scholarship. This includes students already enrolled in private school. A scholarship organization must spend at least 80 percent of its revenue on scholarships.

Scholarship recipients can attend a public or private school approved by the scholarship organization. There is no requirement for participating private schools to administer standardized tests (Act 2001-4, Art. 20-B).

**Rhode Island** – Rhode Island offers businesses a tax credit for contributions to "scholarship organizations." The value of the credit is equal to 75 percent of the contribution, or 90 percent if the contribution is matched for two consecutive years. Each business can claim a maximum credit of \$100,000. The state will award a total maximum of \$1 million in tax credits.

Students with a household income less than 250 percent of the federal poverty guideline as defined by the U.S. Department of Health and Human Services are eligible to receive scholarships. Students already enrolled in private school are also eligible. Recipients must attend a private school approved by their scholarship organization. Scholarship organizations must spend 90 percent of their revenue on student scholarships. There is no requirement for private schools to administer standardized tests (G.L. § 44-62).